HOUSE BUDGET COMMITTEE
BUDGET

Budget Digest
Chairman Diane Black

Volume 2, Number 17 **19 December 2017**

CONGRESS POISED TO PASS HISTORIC TAX REFORM

With final votes scheduled in the House and Senate this week, Congress is about to fulfill its longstanding promise of providing the tax relief American families and businesses have been seeking. Under the Tax Cuts and Jobs Act (H.R. 1), most individuals will see higher after-tax income; small businesses will experience lighter tax burdens, allowing them to prosper; and the economy will grow at a faster rate, boosting incomes and creating hundreds of thousands of new full-time jobs. Here are some of the key features of this historic legislation.

Lighter Tax Burdens. American households will see their tax rates cut starting the first day of 2018. Under this bill, families pay no taxes at all on the first $24,000 of annual earnings, up from $12,700 under current law, if they take the standard deduction. Additionally, the bill doubles the child tax credit to $2,000 per child while increasing the credit's refundability. According to the Tax Foundation, taxpayers' overall after-tax income will increase by 1.8 percent in 2018. The measure also sweeps away numerous special provisions that complicate the tax code and distort economic decisions. Nevertheless, while the bill repeals the Affordable Care Act's individual tax penalty in 2019, it preserves and expands the medical expense deduction. Small businesses also will benefit from lowered rates, which will be further reduced by a 20-percent deduction. This means that a company with $200,000 in annual earnings will not pay taxes on the first $40,000.

Restoring American Competitiveness. H.R. 1 slashes Washington's growth-stifling 35-percent corporate tax rate – the highest in the industrialized world – down to 21 percent, and converts the United States' worldwide taxation to a territorial system, both effective on 1 Jaunary 2018. These steps will vastly improve America's global competitiveness, and reduce the temptation for corporations to establish headquarters overseas. Currently, American companies pay up to a 35-percent tax on their profits, but only when they bring money back to the United States. They will now pay a one-time repatriation rate of 15.5 percent on liquid assets and 8 percent on fixed assets such as equipment.

Stronger Growth. The Tax Foundation also finds that by lowering the cost of capital, H.R. 1 will lead to a 1.7-percent increase in gross domestic product over the long term. This will increase wages by 1.5 percent and add 339,000 full-time equivalent jobs, the foundation estimates.

Smaller-Than-Expected Deficit Effect. Although official estimates of H.R. 1 have indicated a deficit impact of about $1.456 trillion over 10 years, these projections likely overstate the figure. The estimates are based on "static" scoring of the tax reforms, which does not incorporate the expected economic effects. Many economists acknowledge the kinds of tax changes in H.R. 1 will yield improved economic performance, hence higher-than-expected revenues and a smaller deficit impact. Even the Joint Committee on Taxation has calculated that, when this "macroeconomic feedback" is taken into account, the government will likely collect at least $400 billion more in revenue than the static score shows.

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